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C O N F I D E N T I A L SECTION 01 OF 02 TAIPEI 002376

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SUBJECT: CROSS-STRAIT CHARTER FLIGHTS - AIRLINES STILL
WAITING FOR THE BIG PRIZE

REF: A. TAIPEI 1852

[¶](#)B. TAIPEI 2041

[¶](#)C. TAIPEI 2042

Classified By: AIT Acting Deputy Director Charles E. Bennett, Reason 1.

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[¶](#)1. (C) Summary: Taiwan airlines have begun preparing for new cross-Strait charter flights announced June 14 but complain that the number of flights for the holiday charters is too small. China Airlines (CAL) hopes that it will be able to fly cargo charters as often as once a week, but EVA Air believes the permitted cargo charters will be unprofitable. The Cathay Pacific-Dragonair merger has increased the urgency of Taiwan carriers' interest in more frequent charter flights. In the next round of industry-led charter discussions, the PRC and Taiwan will discuss entry-permit arrangements for PRC passengers and representative offices for PRC airlines in Taiwan. End summary.

[¶](#)2. (U) Taiwan airlines have begun preparing for implementation of new cross-strait charter flights under the agreement announced by Taiwan and the PRC on June 14. Taiwan released its governing regulations for the flights on July 7. The new package of charters includes several small breakthroughs. Passenger charters will take place on three additional holidays, adding Tomb Sweeping Day (April 5), the Dragon Boat Festival (late May/June) and the Mid-Autumn Festival (September/early October) to the Lunar New Year (late January/February) holiday charters. The holiday charters have all been institutionalized and will not need to be renegotiated every year. Special ad hoc cargo charters will be the first commercial direct cross-Straits cargo flights, but will only be permitted to take machinery from Taiwan to the PRC for Taiwan investors building factories there. Humanitarian and medical emergency flights will be allowed for the first time. Humanitarian charter flights will be permitted to carry PRC nationals, even though holiday charters will still be limited to Taiwan (ROC) passport holders.

Holiday Flights - Lacking Capacity

¶3. (C) Taiwan air carriers complain the number of new holiday charters is too small to have a significant impact on revenue. Jenny Lee, Deputy Senior Vice President for Corporate Planning at EVA Air, told AIT/T that with only eight round trips per airline over the Lunar New Year and only two round trips for each of the other holidays, EVA doesn't expect to make much money. She noted that for the Mid-Autumn Festival charters, EVA would use a Boeing 777, one of the larger planes in its fleet, to maximize profitability on the flight. CAL Marketing and Planning Vice President Steve Yang told us that CAL would lease a 747 to its subsidiary Mandarin Airlines to maximize Mandarin's capacity for the charter flights.

Cargo - CAL and EVA, Different Expectations

¶4. (C) CAL and EVA have different plans for special cargo charters. Yang said that CAL will fly the first cargo charter in late July. It has already been in discussions with Taiwan Semiconductor Manufacturing Company (TSMC) to transport equipment to its plant in Shanghai. According to Yang, CAL hopes that they will be able to fly cargo charters as often as once a week, combining shipments from various firms on to a single aircraft to reduce costs. EVA's Lee is not as optimistic about the potential for special cargo charters because they are limited to transporting factory equipment. EVA has been in discussions with some information technology firms, but Lee believes there's only demand for a handful of flights each year. She added that with current fuel prices the one-way flights would be far too expensive for most potential customers.

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Humanitarian Charters - Guidelines Still Unclear

¶5. (C) Executives at CAL and EVA both expressed some confusion over the definition of humanitarian charters. They said that the Ministry of Transportation and Communications had still not released clear guidance on what could qualify for humanitarian charters. Supporters of a troupe of deaf PRC Buddhist dancers, including Kuomintang Legislative Yuan Member John Chiang, have been seeking a humanitarian charter to return the dance troupe to the PRC later this month. The Taiwan authorities have not yet approved the request.

Cathay-Dragonair Merger - Adding Urgency

¶6. (C) CAL's Yang commented that with the Cathay Pacific-Dragonair merger it could be too late for Taiwan airlines to compete effectively in the greater China market. EVA's Lee said the impact on Taiwan airlines would be huge, pointing out that the combined airline would have a fleet that includes eighteen 747 freighters (equal to CAL's 747 freighter fleet) plus six more on order from Boeing. According to Lee, Dragonair's extensive network in the PRC will add about 20 PRC destinations to Cathay's routes. China Airlines has already been affected by the merger when Dragonair cancelled its lease of a CAL 747 freighter for a Hong Kong-New York route. China Airlines had reserved 50 percent of the leased plane's cargo capacity on the lucrative route. The Cathay-Dragonair merger will add urgency to interest on both sides of the Strait as PRC and Taiwan airlines seek to compete with the combined Hong Kong carrier, which now holds both a large share of Taipei-Hong Kong traffic as well as an impressive set of PRC connections.

Next Round - Entry Permits and Representative Offices

¶7. (C) Trans Asia Chairman Tony C.C. Fan, who represents Taiwan in industry-led discussions with the PRC as chairman of the Taipei Airlines Association, told AIT/T that the next set of discussions on more frequent passenger and cargo charters would likely be held in August or September. The talks had previously been scheduled for mid-July, but Fan said they would probably be postponed because the Mainland Affairs Council needed more time to prepare. The two sides will discuss entry permit procedures for PRC passengers after and representative offices for PRC airlines in Taiwan. (Note: Currently, PRC airlines hire agents, usually travel agencies, to represent them and sell tickets in Taiwan. End note.) Fan said that he believed Taiwan would be able to accept the PRC proposal that PRC passengers be able to obtain their entry permit documents on arrival at Taiwan's airports after preliminary processing through travel agents. However, he suspects representative offices for PRC carriers will be more problematic because the Taiwan authorities will be concerned about the risk of espionage. Fan also reaffirmed that no deal on more frequent charter flights will be finalized until a deal on cross-Straight tourism can be announced simultaneously.

Comment - Small Steps

¶8. (C) The observations of Taiwan airline executives indicate that the latest package of charter flights represents a mostly symbolic achievement. The new flights won't bring a substantial economic benefit to airlines or Taiwan's economy at large. However, as Fan confirmed, discussions continue to make progress. A few more small steps like those in this latest package could set the stage for a real breakthrough in direct transportation that would have a significant positive impact on Taiwan's economy.

End comment.

YOUNG